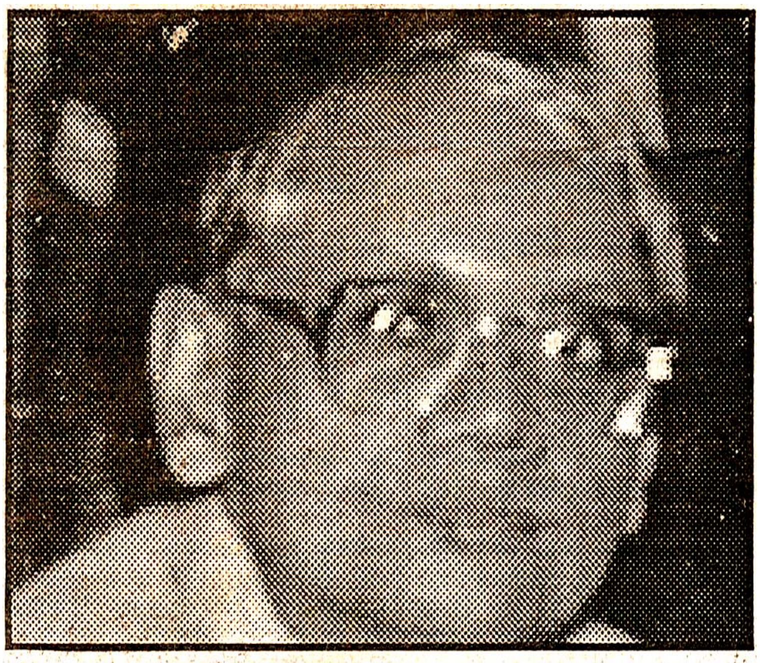
G.L. – QUICK ON THE 'WITHDRAW'

The curious controversies, that surrounded the finalisation of the People's Alliance government's 5th budget and the consequent abandonment of significant and important budget proposals, in the face of stiff opposition from within the ranks of the cabinet of ministers and mounting adverse public opinion has already been dealt with. The democratic traditions, that prevailed in such circumstances, and the significant importance of the necessity for policy evolution by the cabinet of ministers were further brought into focus. Now some of these budget proposals that were reneged upon by the government are focused upon.

For the first time in the history of parliamentary democracy in this country, a socio-politically significant budget proposal, to increase the railway fares by 25% was withdrawn by the Deputy Minister of Finance, G.L. Peiris, whilst on his feet presenting the budget, whereas such budget proposal was contained in the typed text of the budget speech that was before the members of parliament.



Deputy Finance Minister G.L. Peiris — Dropping a proposal or two *en route*

RS. 300 MN. FROM THE POOR PUBLIC

On pages 68 – 69 of the document tabled in parliament, this proposal to increase the railway fares by 25% read as follows; – "Railway Fares – The cost of running of the Department of Railways has increased rapidly from Rs. 1,675 million in 1994 to estimated Rs. 2,340 million in 1999. As against this trend, the estimated revenue of the Department has increased from Rs. 916 million to Rs. 1,300 million leaving the operational loss to increase from Rs. 779 million to Rs. 1,040 million. I therefore propose to increase the railway fares by 25 per cent with effect from December, 1998. This will generate additional revenue of Rs. 300 million in 1999."

The foregoing proposal to raise Rs. 300 million revenue by increasing railway fares by 25% was withdrawn, leaving the budget unbalanced at the time it was presented to parliament on November 5, 1998. Subsequently, it was announced, that the loss of such budgeted revenue of Rs. 300 million would be reduced from the provision for contingencies, without any rational disclosure of the actual expenditures met from contingency provisions in the previous years to justify such reduction. On the other hand, would this not by implication mean, that the contingency provision for the year 1999 had been made on an udhoc basis, with such over provisioning on the level of budgeted expenditure ?

The budgetary estimates had already included a 2% cut on recurrent expenditure, other than salaries, pensions and interest payments on public debt and a 3% under-expenditure on capital expenditure, reckoning a total saving of Rs. 3,895 million, which total savings accordingly would have to increase to Rs. 4,195 million in terms of such adjusted budget.

To raise Rs. 300 million revenue for the year 1999, the government proposed to do so, by increasing railway fares by 25%, affecting hundreds of thousands of commuters from the poorest sectors of society, including fixed wage earners, who daily have to commute to their place of work. In this context, it is pertinent to poignantly throws back on analytical exposures on the privatisation of Orient Lanka Ltd., the company that operates the very profitable exclusive duty free selling facility for liquor, etc., at the international airport.

LOST OPPORTUNITY FOR REVENUE

In April 1995 the Weitnauer Group of Companies, Switzerland one of the largest duty free operators in the world made a proposal to the government to take on a 10-year franchise, the operation of Orient Lanka Ltd., and to pay the government annually a concession fee of 25% on sales turnover, in addition to Weitnauer meeting all the costs of operations of Orient Lanka Ltd. In its proposal to the government, Weitnauer projected the annual turnover and concession fees to the government as follows:

	Turnover Rs.(m).	Concession Fees to Govt. Rs.(m).
1995	1000	250
1996	1100	275
1997	1210	302
1998	1331	332
1999	1464	366
2000	1610	402
2001	1771	442
2002	1948	487
2003	2143	535
2004	2358	590

The Public Enterprise Reform Commission [PERC], by its reply in May 1995 to such proposal stated, that PERC was conducting studies on Orient Lanka Ltd., and was exploring possible options and that such concession was likely to be tendered at a much later date.

Consequently, in November 1995, when PERC invited proposals for the privatisation of Orient Lanka Ltd., Weitnauer once again submitted a proposal to PERC to operate Orient Lanka Ltd., in conformity with the established international practice in the duty free trade of franchise operation and offered in their proposal to PERC, a 20% franchise fee payment to the government (in addition to meeting all operational costs of Orient Lanka Ltd.) reckoned on the projected turnover as follows:

	Turnover US $ (m)	Franchise Fee US $ (m)
1996	22.0	4.40
1997	24.2	4.84
1998	26.6	5.32
1999	29.3	5.86
2000	32.2	6.44
2001	35.4	7.09
2002	39.0	7.79
2003	42.2	8.57
2004	47.2	9.43
2005	51.9	10.37

For some unknown reason, PERC disregarded Weitnauer's proposal and sold outright at that time 60% of Orient Lanka Ltd., to Alpha Airports U.K. for a mere Rs. 1000 million, together with stocks of around Rs. 300 million, whereas Weitnauer had offered in addition to purchase such stocks by paying US $ 5.4 million and to make a further interest free US $ 5 million advance payment i.e. an immediate cash payment of US $ 10.4 million, [Rs. 570 million] together with the annual franchise fee payment of 20% of the turnover as given above for 10 years. Subsequently, a further 37% shareholding was sold to the same buyer, Alpha Airports U.K. for Rs. 740 million, thereby giving such foreign company a 97% shareholding of Orient Lanka Ltd.

Weitnauer had stated clearly, that they were further willing to negotiate on their proposal. Given their previous proposal to the government in April 1995, one could have reasonably expected to have negotiated an increase on their proposed franchise fee to at least 25% on the turnover. Pointedly, Weitnauer by their letter in March 1996 stated to PERC – "We cannot understand how you opted for a much lesser financial offer, that too for an outright sale, whereas on the basis of our proposal Orient Lanka Ltd., could have resold the franchise time and again in the future earning very valuable foreign exchange for the country. The correct sequence of events and the undue hurry and urgency in brushing aside our proposal that was very much more financially and economically beneficial to your country make it quite difficult for us to understand your decision." There was no reply from PERC !

On the basis of a 25% franchise fee, the reckoned level of income on the above proposal to the government in the year 1999 alone, could be estimated to be Rs. 525 million, in comparison to the Rs. 300 million, that was sought to be raised by imposing a burden of 25% increase on railway fares on the poorest sectors of the public !

LUXURY VEHICLES - REVERSAL OF POLICY

In contrast to the burden of 25% increase in the railway fares that had been proposed to be imposed on the poorest sectors of the public, the government's budget proposals on the contrary, ironically reduced the incidence of import duty on luxury motor vehicles, whereby as a consequence of the import duty reduction on luxury motor vehicles, the cost of such luxury motor vehicles benefiting the richest sectors of society has been reported to have come down in some instances by as much as Rs. 2 million per luxury motor vehicle ! What social justice !

In contrast, the People's Alliance government's very 1st budget presented to Parliament on February 8, 1995 was critical of the opulent living by the rich by the use of luxury motor vehicles. This is what the People's Alliance government's very 1st budget speech at pages 65 – 66 stated – " Meanwhile there is an increasing tendency to use luxury vehicles reflecting conspicuous consumption in the country ….. Hence, the government proposes to impose an annual tax of Rs. 50,000/- per luxury vehicle." What a complete reversal !

PRAISED THEN, HUMILLATED NOW

Another socio-politically significant budget proposal, that was reneged upon by the government in the face of mounting adverse public opinion, was the proposal to deprive the Sri Lankans returning from overseas employment, particularly again those from the not so affluent sectors of society, the duty free personal baggage allowance, that they had hitherto been entitled to. – The retracted budget proposal stated "The concessions in respect of passenger baggage allowance will also be restricted to curtail smuggling and leakages. In lieu of this allowance, all Sri Lankan returning from overseas employment will be given a grant of Rs. 5,000 through the Foreign Employment Bureau. The benefits from this allowance went largely to middleman who purchased duty free allowance for approximately Rs. 3,500 from the Middle-East returnees. On the other hand, the sale of these goods in the market impacted adversely on local production and employment generation. The Middle East returnees will now receive a direct grant of Rs. 5,000 from the Government and will be benefited without the harassment from middlemen."

Here again it is pertinent to reiterates what the People's Alliance government's 1st budget speech stated at pages 28-29 in regard to Sri Lankans working abroad – "Sri Lankans working in other countries remit over US $ 500 million a year. This has become a single largest source of foreign exchange earnings in Sri Lanka…Unlike professionals who seek more remunerative pastures abroad on long term basis and retain their savings abroad, these workers work under most difficult conditions and remit their meagre savings to sustain their poor families ….When they return, they are made to undergo considerable difficulties at airports. It is inconceivable how a category of people who bring immense wealth to the country are treated so badly".

PA GOVERNMENT'S 1ST BUDGET PRESENTED TO PARLIAMENT
ON FEBRUARY 8, 1995

Foreign Employment – (Pages 28 – 29)

Sri Lankans working in other countries remit over US $ 500 million a year. This has become a single largest source of foreign exchange earnings in Sri Lanka after garment exports, accounting for nearly 15 percent of foreign exchange earnings, and has been rising sharply from a level of about US $ 170 million in 1977. At least 500,000 Sri Lankans are estimated to be working abroad, especially in the Middle East. Unlike professionals who seek more remunerative pastures abroad on long-term basis and retain their savings abroad, these workers work under most difficult conditions and remit their meagre savings to sustain their poor families, and to pay the mortgages incurred to raise funds needed to travel to employment. When they return, they are made to undergo considerable difficulties at airports. By seeking overseas employment, they provide considerable relief to out national problem of high unemployment. It is inconceivable how a category of people who bring immense wealth to the country are treated so badly.

These great benefactors of the national economy deserve to be treated better by the nation. Hence, we propose to implement a special welfare package to assist them and express our gratitude. The package will consist of –

(a) Financial assistance and training facilities before departure
(b) More convenient facilities to remit funds
(c) Appointment of a Welfare Officer to countries where there are a strong concentration of workers, to look after their interests.
(d) Advice on how best to invest their savings in Sri Lanka.
(e) Special reception counters at the airport to receive them and facilitate their return.
(f) A facility to use their duty-free personal baggage allowance at any shop in Sri Lanka to buy even local goods, less import duties, for an extended period of 6 months.

(g) A facility to purchase machinery and equipment to set up a livelihood, upto a value of US $ 5,000, without payment of import duty and turnover tax.
(h) Special loan facilities from commercial banks on a priority basis.
(i) Preferential allocation of upto 5 percent of shares in restructured public enterprises, at par.

Motor Vehicles Tax – (Pages 65 – 66)

" … In many countries, vehicle users are required to pay for the high cost of construction and maintenance of the road system in various forms. Some countries levy tolls on use of roads in addition to high annual registration and parking fees on motor vehicles. A system of levying tolls will be introduced on the major highways that will be built in the future, when private sector participation in highway construction will be allowed, because the finances that are needed for such large investments cannot be raised by taxing the people and the foreign aid available is hardly adequate to meet our needs. Meanwhile, there is an increasing tendency to use luxury vehicles reflecting conspicuous consumption in the country. There are over 20,000 such expensive (Rs. 5 million or more) vehicles currently in use. Some of these have been imported on a duty free basis. Hence, the Government proposes to impose an annual tax of Rs. 50,000 per luxury vehicle, such as cars, jeeps and vans with an engine capacity over 1800 cc. used by both the government and the private sector. "

As mentioned earlier, the lower price differential between petrol and diesel has encouraged an increased use of diesel vehicles in the country. An estimated 88,000 diesel vehicles are being used by the private sector, enjoying the hidden cross-subsidy between petrol and diesel. Therefore, an annual tax of Rs. 10,000 per vehicle will also be imposed on diesel vehicles in private ownership and use (other than those used for public transport and agriculture). Necessary legislation on the imposition of these motor vehicle taxes under the Finance Act will be presented to Parliament, shortly. For administrative convenience and better enforcement, both these taxes will be collected at the point of insurance. Estimated revenue from this proposal is about Rs. 1,880 million in 1995.

In such context, the People's Alliance government's 1st budget in February 1995, proposed a special package to these "great benefactors of the national economy" as so described then. The proposed package, inter-alia, included, special reception counters at the airport to receive them, a facility to use their Duty Free Baggage allowance for an extended period of 6 months, a duty free facility to purchase machinery and equipment upto a value of US $ 5,000 and preferential allocation of 5% of shares at par value i.e. nominal value, in restructured public enterprises, understood to be privatised public enterprises. All these appear to have gone overboard and these very same "great benefactors of the national economy" as they had been so described then, are today alleged to be smugglers or aiding and abetting smugglers !

LOBBY OF THE AFFLUENT

The retracted budget proposal was to withdraw their duty free personal baggage allowance and to pay them each Rs. 5,000 in lieu. This budget proposal reneged upon was patently purported to have given an impetus to the sale of locally produced goods. These Sri Lankans returning home, are not the buyers of luxury motor vehicles, cost of some reduced by as much as Rs. 2 million, but these Sri Lankans, having been abroad, have a penchant to purchase simple household appliances, such as refrigerators, washing machines, televisions, cameras, video players, music set ups, rice cookers, blenders, mixers, etc. How many of these products are manufactured in this country for the said budget proposal to have blatantly stated that the said proposal to withdraw the duty free personal baggage allowance, was to assist local production and employment generation ?

In actual reality, was this not a benefit and concession endeavoured to be afforded to the importers of these very goods, some well established companies, with ability to influence peddle and lobby governments ? How did this budget proposal ever come to be given birth to ? Whose bright idea was it and for whose benefit was it ? These importers must accept the stark reality and the naked truth, that it is because of the huge foreign exchange remittances by these Sri Lankan from the not so affluent sectors of society, that these importers are able to have foreign exchange to import such goods for sale. One simply cannot understand the logic, of affording remarkable duty concessions to the more affluent sectors of society on luxury motor vehicles, to be imported from the valuable foreign exchange remittances by these not so affluent sectors of society, whilst at the same time, endeavouring to curtail their personal baggage allowances and to their freedom of choice in the market ? What social justice !

The reason trotted out has been that these Sri Lankan returnees, re-sell their duty free allowance for a mere Rs. 3,500 whereas, on the contrary, how could one turn a blind eye in comparison, to the re-sale of imported duty free luxury motor vehicles, making immensely much more profit on such sales, by politicians and others on both sides of the political divide, who have not earned any foreign exchange for the country, at all ? In the very words of the People's Alliance government's 1st budget – "It is inconceivable how a category of people who bring immense wealth to the country are treated so badly" Words well spoken then, but now forgotten !

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